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ABSTRACT

This is a classroom-ready program that examines the worldwide push for economic freedom as a way of helping students understand its relationship to economic growth. This program is designed to supplement social studies courses in economics, government, U.S. and world history, world cultures, and geography. The unit contains a newsletter for students in grades 9-12, four reproducible activity masters contained in a four-page teacher's guide, and a full-color map, "Economic Freedom: Who's Got It, Who Doesn't," presented as a full-sized wall poster. The learning objectives are: (1) to define 'economic freedom' (or 'economic liberty') and to explain how it might affect economic growth; (2) to explain why increased economic freedom might be unsettling to some Chinese workers; (3) to cite at least one provision in the U.S. Constitution that supports the concept of economic freedom; (4) to explain five components of economic freedom; (6) to describe how today's global economy differs from those of earlier centuries; (7) to suggest how studies of economic behavior help us understand consumers; (8) to explain why it is important for global companies to pay attention to local values; and (9) to describe at least two factors that would make a nation's economic climate attractive to investors. (BT)

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ED 434 840

Global Visions: Teaching Suggestions and Activity Masters for Unit 3. Economic Freedom: Who's Got It, Who Doesn't

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Teaching Suggestions and Activity Masters for Unit 3 of

GLOBAL VISIONS

Dear Educator:

"Economic growth," two economists told a U.S. Senate committee this past July, "is, quite literally, a matter of life and death." Boost per capita income in the average developing nation from $500 to $1,000 a year, they estimate, and life expectancy in that nation should also rise—by about 3¾ years.

Over the past 50 years, calculations like this one have spurred a variety of experiments aimed at solving the dilemmas faced by developing nations. Generally, these experiments involved the infusion of dollars, transfers of technology, and industrial policies that ranged from stimulating trade with public funds to central economic planning.

Many of these experiments failed. Their failure persuaded the governments of nations as different as China and Chile to try something different—relaxing their grip on their economies. They auctioned off state enterprises, pared back wage and price controls, and, among other things, slashed the red tape that made it hard to open and keep open private businesses. Inevitably, impressive economic gains followed.

This issue of *Global Visions* examines the worldwide push for economic freedom as a way of helping students understand its relationship to economic growth. The poster, student newsletter, and four pages of activities offer a variety of opportunities for exploring that link.

Global Visions is designed to supplement social studies courses in economics, government, history, world cultures, geography, and current events and issues. To receive copies of future units addressed to you by name, simply check the appropriate box on the enclosed Survey/Order Card. At the same time, please let us know your reaction to this unit.

C Talbot

Carol Talbot
Educational Services
The Procter & Gamble Company

P&G

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Student Materials in This Unit

Global Visions 3 includes:

- **A full-sized wall poster, "Economic Freedom: Who's Got It, Who Doesn't"**
- **30 copies of a four-page newsletter designed to help high school students explore economic freedom, the history of the global marketplace, and more.**
- **4 reproducible activity masters—on (1) the ingredients of economic freedom; (2) the link between economic freedom and economic output; (3) constitutional safeguards for economic freedom; and (4) economic climates favorable to investment.**

Learning Objectives

Students using the materials in this unit should be able:

- **to define *economic freedom* (or *economic liberty*) and explain how it might affect economic growth;**
- **to explain why increased economic freedom might be unsettling to some Chinese workers;**
- **to cite at least one provision in the U.S. Constitution that supports the concept of economic freedom;**
- **to explain five components of economic freedom;**
- **to describe how today's global economy differs from those of earlier centuries;**
- **to suggest how studies of economic behavior help us understand consumers;**
- **to explain why it's important for global companies to pay attention to local values;**
- **to describe at least two factors that would make a nation's economic climate attractive to investors.**

Getting Started

Introduce your students to the twin concepts of economic growth and economic freedom.

- **Economic Growth:** Why is growth important? (It leads to higher living standards, which in turn translate into healthier, more productive citizens; it creates job opportunities for expanding populations; it provides a growing tax base for government programs like education and defense; etc.) What factors might contribute to economic growth? (A rich fund of natural resources, a skilled labor force, the availability of new technologies, capital for investment in new enterprises, and government policies that allow free-market forces to shape economic life.)

- **Economic Freedom:** What defines a "free" economy? (In general, minimal government intrusion in economic affairs and strong guarantees to the right to own legally acquired property.) What ways can governments "intrude"? (By taxing, erecting trade barriers, competing with private companies, dominating industries with state-owned enterprises, over-regulating banks and other businesses, controlling wages and prices, appropriating private property, etc.) What freedoms do people in a "free" economy enjoy? (Freedom House, an independent group that compiled a *World Survey of Economic Freedom, 1995-1996*, lists six: the freedoms to hold property, to earn a living, to operate a business, to invest earnings, to exchange goods and services internationally, and to take part in a market economy that's free of discrimination and corruption.)

- **Political Freedom and Human Rights:** How is economic liberty different from either political liberty or civil liberty? (Political freedom exists in nations where elections are open to all citizens on an equal basis. Civil liberties include the sort of freedoms that the U.S. Bill of Rights guarantees: access to fair trials, protection from unreasonable searches, the right to free expression, etc. While political and civil liberties do affect economic growth, their impact appears far less important than that of economic freedom.)

Under the heading "Economic Freedom," draw a horizontal line about four feet long on the chalkboard. Write "1—Free" on one end of the line and "5—Unfree" on the other, adding hash marks labeled "2," "3," and "4." Have students help you position 10 or more nations on the continuum solely on the basis of what students perceive as each nation's level of economic freedom. The basic 10: the U.S., Cuba, China, Russia, Japan, France, Mexico, Singapore, North Korea, and South Korea. (You might add others—those recent immigrants hail from, for example.)

- **Display the poster, "Economic Freedom: Who's Got It, Who Doesn't":** What does the title describe? (A ranking of 150 nations according to their level of economic freedom.) How are the ranked nations divided? (Into four categories: Free, Mostly Free, Mostly Unfree, Unfree/Repressed.) As a way of introducing the material, compare students' ratings of the 10 nations on the continuum with the Heritage Foundation's assessment, as reflected on the poster. (The *1997 Index* would list our "basic 10" in the following order, given here with their numerical rank. Free: Singapore, 2; the U.S., 5. Mostly Free: Japan, 11; S. Korea, 27; France, 31; Mexico, 94. Mostly Unfree: Russia, 115; China, 125. Unfree/Repressed: Cuba, 148; N. Korea, 148. Because of ties, 148 constitutes last place in the Heritage Foundation's ranking.) Discuss any surprises. (The *1997 Index* puts the U.S. in fifth place with Switzerland. It gives the U.S. relatively low grades for its complicated tax structure: "'. . . the government of the United States," the editors write, "has yet to cut taxes or reform its tax system.")

- **Evaluating the evaluator:** The Heritage Foundation's *1997 Index of Economic Freedom* is a useful and fascinating tool for prompting discussion about the concept of economic freedom. But like any tool, it is imperfect. Its indicators are not precision instruments—"excessive" taxation to its compilers might seem "reasonable" to someone else, so a certain amount of subjectivity is inevitably built into its ratings. The Heritage Foundation was set up in 1973 "to formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense."

Two other surveys of economic liberty show that the *1997 Index* is a solid work of scholarship. These are the Fraser Institute's *Economic Freedom of the World: 1975-1995*, and Freedom House's *World Survey of Economic Freedom:*

1995-1996. While each group advances slightly different criteria for economic freedom, both support the Heritage Foundation's conclusion that economic freedom is a prerequisite for economic growth.

● **Clarifying terms.** Preview those terms with which your students might be unfamiliar. From the student newsletter: *trade, state enterprise, market economy, entrepreneurial, prosperity, regulation, consumer preferences, resource-poor, globalization, chartered company, economic integration.* From the activity masters: *black market, tariff, trade barrier, gross domestic product, per capita, socialist, capitalist, requisition, court system, inflation.*

Student Newsletter/Cover Story: "The Push for Economic Freedom"

Overview: This piece introduces the concept of economic freedom and goes beyond the poster to put the Heritage Foundation's *1997 Index of Economic Freedom* in context.

Discussion: Before reading, ask students how they would react if they managed a factory whose one customer paid for the factory's entire output. Then ask: What if that sole customer informed you that you could no longer count on it for orders—and said you'd be better off if you competed for them? How would you react? Tell students they're about to read of a woman in precisely that situation. *After reading*, ask students why Yu Yaquin might not be eager to learn "the lesson of the market economy"? (The risk of failure is, for the first time, very real.) How and why might her attitude toward the free market differ from the attitudes of the two young Chinese profiled in "Three Who Thrive on Change"? How do factors such as unchecked inflation, trade barriers, and price controls narrow economic freedom?

Student Newsletter/History: "What's New About Global Trade"

Overview: Much about the global economy has changed over the past few centuries, not the least of which is our growing awareness of our dependence on trade.

Discussion: Suggest students view the global economy—that portion of it linked to international trade—as a kind of virtual "global shopping mall." Ask: Why might teenagers "visit" this mall? (To buy items not made at home, or better or less expensively made than similar products produced at home.) What has changed over the past 50 years that has enabled teenagers everywhere to "visit" a global shopping mall? (Advances in electronic communications and transportation; rising affluence; etc.) *Follow-up:* In past centuries trade was often exploitative, resulting for example in the harsh treatment of Amerindians, the British subjugation of India, and the scourge of the opium trade. How might the recent outrage over the use of child workers abroad (e.g., 12-year-olds making basketballs in Pakistan) suggest that the sort of exploitation that marked the colonial era is unlikely to occur today? What changes should check such abuses?

Student Newsletter/Sidebar: "An American in China"

Overview: Sidney Gamble (1890-1968) was a pioneering student of China and of the household budgets of ordinary Chinese long before market researchers began to dig for consumer preferences in the U.S. and abroad. He left behind, in words and pictures, a valuable record of his times, with such books as *Peking: A Social Survey* (G.H. Doran Co., 1921), *Household Accounts of Two Chinese Families* (China Institute in America, 1931), and *How Chinese Families Live in Peiping* (Funk & Wagnalls, 1933).

Discussion: Ask students to describe what scholars do and why their discoveries can be important. (Scholars are specialists who attempt to enlarge our understanding of a subject, usually through research.) How do Sidney Gamble's photos and findings about the people of Beijing teach you about China? Why would it have been an exercise in futility to market consumer goods—toothpaste, soft drinks, and detergent, for example—to the Chinese families Gamble studied in 1926? What do students think has changed to make Chinese families the targets of global marketers today?

Beijing or Peiping? Gamble's studies identify Beijing as both Peking and Peiping. The reasons: In Gamble's day, Chinese ideograms were romanized according to the Wade-Giles method, which the pinyin method replaced in 1979. Our Beijing was his Peking ("northern capital"). In 1928, the capital was moved to Nanking ("southern capital"), where it had been twice before; Peking was then renamed Peiping ("northern peace"). Peiping stuck until 1949, when the Communists made the city their capital and restored its earlier name. Nanking is now romanized as Nanjing.

Activity Master 1: "Gauge Two Nations' Economic Freedom"

Overview: This exercise invites students to think critically about 10 ideal conditions of economic freedom as they "grade" two nations on how well each one may have woven these ideals into its social fabric.

Strategy: Tell students that they are not expected to achieve scientific precision here. It might help to talk them through the first ideal—free trade—before letting them work through the rest on their own. After they've worked out their 10 subtotals, have them compute the raw scores and divide by 10 to arrive at an overall score for each nation.

Discussion: Discuss students' grades on each nation's characteristics, reminding them that in surveys such as this one there is plenty of room for disagreement. Guide the class to a consensus grade in each area by helping them make a master list on the chalkboard. Finally, have students share and explain their lists of the three criteria they feel have the most impact on economic freedom.

Answers: Answers will vary. Students may want to match their "Ideal/Far from Ideal" overall scores with the "Free/Unfree" categories favored by the Index. After discus-

sion, students may be interested to learn that Nation A is Switzerland, tied with the U.S. for the 5th spot ("Free") in the Heritage Foundation Index; and that Nation B is the People's Republic of China, ranked 125 ("Mostly Unfree"). The 1997 Index gives Switzerland an overall score of 1.90, based on the following scores: 1-2, 2-3, 3-3, 4-1, 5-2, 6-1, 7-2, 8-1, 9-3, 10-1. China gets an overall score of 3.80, calculated on scores of 1-5, 2-4, 3-5, 4-3, 5-3, 6-3, 7-3, 8-4, 9-4, 10-4.

Activity Master 2: "Follow the Curve of Economic Freedom"

Overview: This activity highlights the link between economic freedom and the output of goods and services per capita in 26 Asia-Pacific nations. The chart shows that, in general, the higher a nation's score in the 1997 Index, the higher is its per capita gross national product.

Answers: 1-F, 2-F, 3-T, 4-F, 5-F, 6-T, 7-T, 8-F, 9-T, 10-T

Discussion: Suppose students knew nothing about the nations listed on this chart. Which four might they most readily identify as centrally planned economies? (The four in the unfree/repressed category. While Myanmar has an increasingly mixed economy, the others are one-party Communist states.) What impact might a nation's geographic location or land size have on its GDP? (Have students refer to the poster-map as they consider this question. Several of the most productive are island nations. China and India have large rural populations, while Singapore and Hong Kong are virtually entirely urbanized.) Have students share their responses to "Thinking Critically." Besides geographic and demographic factors that may have a positive or negative impact on growth, students might consider cultural issues, the impact of skilled work forces, an abundance of natural resources, and the availability of new technologies.

Activity Master 3: "Spot Laws That Promote Growth"

Overview: This activity invites students to look for bias for or against economic freedom in excerpts from the U.S. and Chinese constitutions.

Answers: 1-c, 2-b, 3-b, 4-c, 5-a, 6-b, 7-c, 8-a

Discussion: Among other things, the U.S. Constitution gives Congress regulatory power over internal and external trade, the power to set up copyright and patent offices, the power to coin money and regulate its value, the power to oversee bankruptcies, standardize weight and measures and set up post offices. Have students suppose that fate has given China the quoted provisions from the U.S. Constitution and the U.S. the provisions in China's constitution. Ask: How might your choices—as a consumer, worker and citizen—be different today? What problems might China confront if it insisted on honoring the provisions of its own constitution while moving toward a market economy? What incentives (or, alternatively, disincentives) to individual economic initiative do the excerpts display?

Activity Master 4: "Decide Where to Invest $30 Million"

Overview: This activity invites students to help a global consumer products company decide where to set up a soft-drink plant. The choices, Country C and Country D, are both Asian nations. One already has a good deal of economic liberty; the other has been taking steps to liberalize.

Discussion: Encourage students to avoid hasty judgments by using "PMI" (Plus/Minus/Interesting) brainstorming to generate the pluses ("P"), minuses ("M"), or simply interesting observations ("I") about each potential site. Some pluses to investing in Country D, for example: Its population is nearly half again as large as Country C's; the fact that other investors are taking a wait-and-see attitude may present Babco with an opportunity to be the first to market with its soft drink; labor costs may be lower; etc. Possible minuses for Country C: Building market share in a country where competing brands are well-established may be difficult; its growth appears to be about to slow; new environmental laws may make setting up a bottling plant prohibitively expensive; labor costs may be higher; etc. Item that is neither positive nor negative—just interesting: Both nations have similarly high literacy rates. Jot down student ideas on the chalkboard. Finally, take a vote on a recommendation to Babco. (Students might be interested to learn, after discussion, that the statistics for Country C mirror those of South Korea; those for Country D reflect the realities of 1995 Vietnam. South Korea ranked 27th , "Mostly Free," in the Heritage Foundation's 1997 Index; Vietnam ranked 143rd, "Unfree/Repressed.")

Resources

Economic Freedom of the World: 1975-1995 by James Gwartney, Robert Lawson, and Walter Block. Vancouver, B.C., Canada: The Fraser Institute, 1996.

"How Do Economies Grow?" by Bruce R. Scott, *Harvard Business Review*, May-June 1997.

Liberty, Equality, Prosperity, a report to the Joint Economic Committee of the U.S. Senate, by Steve H. Hanke and Stephen J.K. Walters, July 1997.

1997 Index of Economic Freedom, Kim R. Holmes, Bryan T. Johnson, and Melanie Kirkpatrick, eds. The Heritage Foundation, Washington, DC, 1997.

"Political Regimes and Economic Growth" by Adam Przeworski and Fernando Limongi, *Journal of Economic Perspectives* 7 (1993): 51-69.

World Class: Thriving Locally in the Global Economy by Rosabeth Moss Kanter, Simon & Schuster, 1995.

World Survey of Economic Freedom, 1995-1996, Richard E. Messick, ed. New Brunswick, NJ: Freedom House and Transaction Publishers, 1996.

Printed on recycled paper.

GAUGE TWO NATIONS' ECONOMIC FREEDOM

What does "economic freedom" really mean? This activity will help you find out. It invites you to rank two nations in 10 areas thought to have an impact on economic freedom.

Familiarize yourself with the "10 Ideal Conditions for Economic Freedom." Then, using the remarks about each nation as a guide, "grade"—very roughly—Nation A and Nation B in each area, using a range of 1 (Ideal) to 5 (Far from Ideal). Compute a Raw Score and an Overall Score for each nation. Afterwards, discuss your grades with your classmates to help you further explore the concept of economic freedom.

Grading Nation A and Nation B: The following remarks provide clues about how well Nation A and Nation B achieve the "10 Ideal Conditions" listed in the box. Grade each nation on how close you feel it comes to each ideal. Use the following scale: 1.00-1.99 (Ideal), 2.00-2.99 (Mostly Ideal), 3.00-3.99 (Mostly Not Ideal), 4.00-5.00 (Far from Ideal).

Nation A:

1. Its average tariff (import tax) adds about 2.2% to the value of imported goods.
2. The average worker pays 2.6% of income in taxes.
3. The government consumes about 14% of the nation's output of goods and services. But its constitution limits its ability to launch costly programs.
4. The average 1996 rise in prices was low—about 1.6%.
5. The government limits foreign ownership of real estate, electric power plants, broadcast media, and transportation facilities.
6. Banks are free to offer a wide range of services.
7. Wages and prices are unregulated. But government programs prop up the prices of farm goods.
8. Laws give private property exceptional protection.
9. It's easy to set up a business here.
10. Black market activity is virtually nonexistent.

Nation B:

1. Its average tariff is about 25%.
2. The average worker pays 15% of income in taxes.
3. The government makes many key decisions about what its people produce and consume.
4. Average price rises have been moderately high—about 17% in 1995.
5. Despite barriers to foreign investment, the government hopes foreign companies will help modernize state-owned enterprises like power generation and telecommunications.
6. The government owns most banks. Yet it lets banks be owned privately—even by foreigners.
7. The government sets some prices and wages.
8. Its courts cannot be counted upon to protect private property rights.
9. Government regulations often burden private businesses.
10. Black market—in smuggled goods, especially—is huge.

10 IDEAL CONDITIONS FOR ECONOMIC FREEDOM PREMISE: Economic Freedom Flourishes Where. . .	NATION A	NATION B
1. Governments Encourage Free International Trade		
2. Taxes Are Reasonably Low		
3. Individuals Can Produce and Consume What They Want		
4. Money Is Protected Against Inflation		
5. Foreigners Can Invest in Local Businesses		
6. Banking Is Not Heavily Regulated		
7. Individuals Are Free to Set Wages and Prices		
8. Laws Protect Private Property		
9. Governments Limit Obstacles to Opening and Keeping Open Businesses		
10. Black Market Activities Are Small in Scope		
Raw Score (Total of Lines 1–10)		
Overall Score (Raw Score ÷ 10)*		

*For purposes of comparison only, the *Index of Economic Freedom* categories are: Free (1.00-1.99); Mostly Free (2.00-2.99); Mostly Unfree (3.00-3.99); Unfree/Repressed (4.00-5.00).

Thinking Critically

On the back of this sheet, list the *three* conditions you believe have the biggest impact on economic freedom and explain why you chose them.

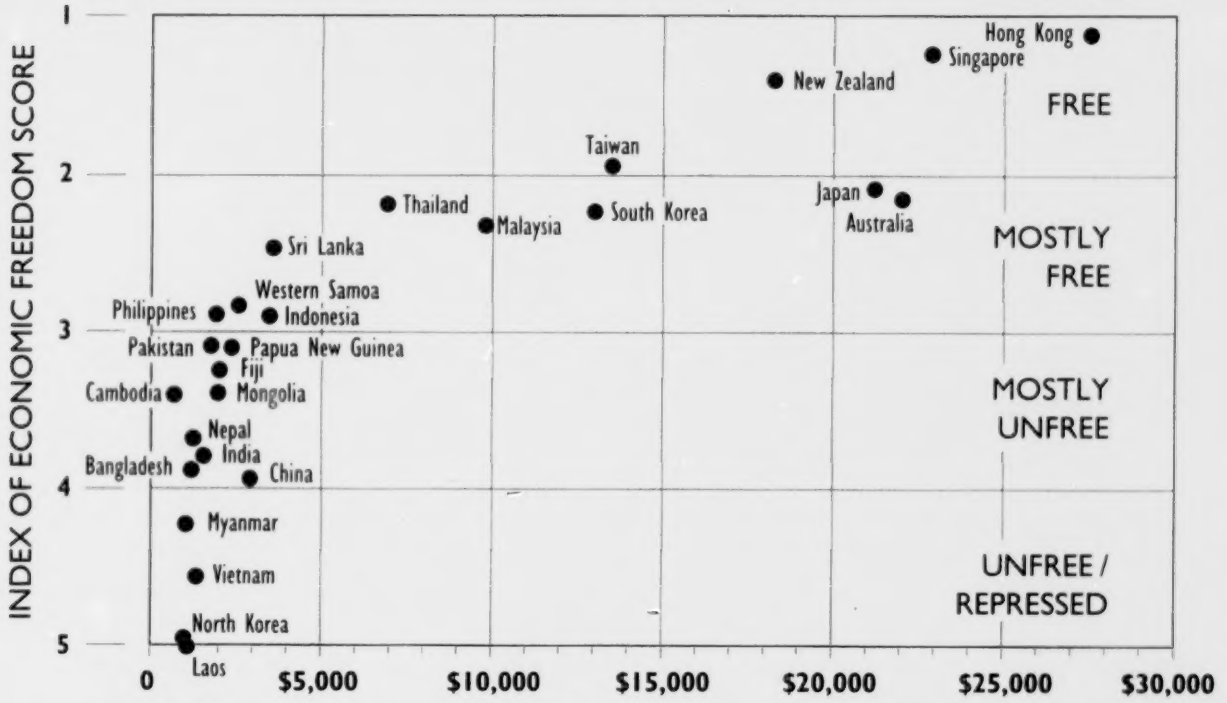
Teachers may make copies of this activity master to distribute to their classes.

FOLLOW THE CURVE OF ECONOMIC FREEDOM

The relationship between economic freedom and prosperity is difficult to describe. Yet it can be charted in a way that will help you see the link between a nation's economic liberty and its citizens' ability to create wealth.

The chart on this page does just that. It lets you compare 26 nations in terms of economic freedom and the value of the goods and services their people produced in 1995. All 26 nations are in the Asia-Pacific region. The true/false questions will help you explore it.

ECONOMIC FREEDOM AND WEALTH IN THE ASIA-PACIFIC REGION



Sources The Heritage Foundation (IEF Scores) and the U.S. Central Intelligence Agency (estimates of 1995 per capita GDP's)

True or false:

___ 1. Some of the 26 nations on this chart are in Europe and the Americas.

___ 2. The Index of Economic Freedom put both Japan and New Zealand in the "Free" category.

___ 3. The political entity with the most economic freedom in the region is Hong Kong (a "special administrative region" of China since July 1997).

___ 4. North Korea and Vietnam share the distinction of having the least economic freedom in the region.

___ 5. North Korea's per capita gross domestic product (GDP)—its output of goods and services per person—exceeds $2,000 a year.

___ 6. Hong Kong's output of goods and services, per resident, exceeds $27,000 a year.

___ 7. South Korea's per capita GDP is at least 10 times as high as North Korea's.

___ 8. The per capita GDP of all "Mostly Free" nations is lower than that of all "Free Nations."

___ 9. Though its economy is less free than those of India and Bangladesh, China has a per capita GDP that's about twice as large as those of the other two nations.

___ 10. In general, this chart suggests, the higher a nation's level of economic freedom, the higher is the value of the total amount of goods and services its people produce, per capita.

Thinking Critically

What variables besides economic freedom might help explain why some nations on this chart are more productive than others?

Teachers may make copies of this activity master to distribute to their classes.

SPOT LAWS THAT PROMOTE GROWTH

Since 1979, the People's Republic of China has been moving from a planned economy to a market economy. That move has brought wrenching changes—and the need for laws that will enable this Communist-led nation to overcome what might be called "anti-business" clauses in its 1982 constitution. Without such laws—and courts that can enforce them fairly and predictably—China will be unable to persuade foreign companies to do business in China.

Below are excerpts from the 1982 constitution. For comparison, excerpts from the U.S. Constitution follow. The selections and the questions about them will help you understand the link between a nation's basic laws and its economic freedom.

EXCERPTS FROM THE CONSTITUTION OF THE PEOPLE'S REPUBLIC OF CHINA:

From the Preamble: "The fundamental task of the state is . . . to bring about the socialist industrialization of the country and . . . to accomplish the socialist transformation of agriculture, handicrafts and capitalist industry and commerce. . . ."

From Article 6: "The state sector [government-owned enterprises] of the economy is a socialist sector. . . . It is the leading force in the national economy . . . transformation. The state ensures priority for the development of the state sector. . . ."

From Article 10: "The policy of the state towards capitalist industry and commerce is to use, restrict and transform them. . . ."

From Article 13: "The state may . . . buy, requisition or nationalize land and other means of production. . . ."

From Article 15: "The state directs the growth and the transformation of the national economy. . . ."

EXCERPTS FROM THE CONSTITUTION OF THE UNITED STATES:

From Article I, Section 8: "The Congress shall have the power . . .

"(3) To regulate commerce with foreign nations, and among the several States, and with the Indian tribes;

"(4) To establish . . . uniform laws on the subject of bankruptcies throughout the United States;

"(8) To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries. . . ."

From Article I, Section 10: "No State shall . . . pass any law impairing the obligation of contracts. . . ."

From Amendment V: "No person shall . . . be deprived of life, liberty or property, without due process of law. . . ."

Circle the choice that best completes each statement:

1. The excerpts reflect opposing views of government's role in the (a) military; (b) schools; (c) economy.
2. The preamble to China's constitution says that the government's goal is to transform Chinese farming, industry, and commerce into (a) privately owned businesses; (b) socialist enterprises; (c) family companies.
3. The most important part of China's economy, Article 6 implies, is the (a) private sector; (b) public, or state, sector; (c) service sector.
4. Article 13 suggests that the government can take (a) any land it wants; (b) any factories it wants; (c) both "a" and "b."
5. The U.S. Constitution states that it is the U.S. government's job to oversee (a) commerce that crosses borders; (b) all business transactions; (c) neither "a" nor "b."
6. The Constitution gives the U.S. Congress the power to make laws that apply to (a) business successes; (b) business failures; (c) state-owned enterprises.
7. The Constitution gives Congress the power to make sure that inventors have an economic reason to (a) take government jobs; (b) write books; (c) discover new things.
8. The U.S. Constitution's authors wrote that protecting legal agreements (contracts) and private property was (a) important; (b) unimporant; (c) for states to decide.

Thinking Critically

How might China amend its constitution to create a more "business-friendly" environment? List some consequences of these changes. What groups in China might feel threatened by such changes?

Teachers may make copies of this activity master to distribute to their classes

DECIDE WHERE TO INVEST $30 MILLION

Babco Brands, a U.S.-based company that produces and sells consumer products worldwide, has asked you to help it solve a problem. Until now it has focused on building markets in the U.S., Europe, and Africa, so its presence in Asia is relatively small. But Babco wants to share in Asia's growing prosperity. It already has plants and offices in the best-known markets—China and Japan. Now it wants to branch out into the lesser-known nations of Eastern and Southeastern Asia.

Babco has earmarked an investment of $30 million for this effort—enough to build a soft drink factory and start up a sales and distribution force. It has narrowed its choices to two nations: Country C and Country D. Which of the two provides the best climate for such an investment? Read the facts about each country. Then use the questions below them to guide your thinking.

	Country C	Country D
Population	45.5 million	74 million
Location	Eastern Asia	Southeastern Asia
Comparative Size	Size of Indiana	Size of New Mexico
Terrain	Mountainous with wide coastal plains	Deltas with rugged highlands
Telephones	16.6 million	800,000
Highways	61,296 km, mostly paved	105,000 km, mostly unpaved
Literacy rate	98%	94%
Political System	Multiparty democracy	Communist state
Property Rights	Highly protected	Little legal protection
Court System	Independent judiciary	Subject to government pressures
Economy	Dynamic capitalist economy, stressing manufacturing for export	Largely state-run, despite reforms that permit some private enterprise
Work Force	27% mining, manufacturing; 21% agriculture, fishing; 52% services, other	53% industry & commerce, 22% services, 16% agriculture.
Unemployment Rate	2% ('95)	25% ('95)
Gross Domestic Product	$591 billion ('95)	$97 billion ('95)
GDP Per Capita	$13,000	$1,300
Rate of Economic Growth	9% ('95)	9.5% ('95)
Inflation Rate	4.3% ('95)	14% ('95)
Expert Summary	War-torn and poor in the 1950's, Country D has managed more than 30 years of record growth, achieving an output per person that is 9 times India's. Growth is expected to slow as it deals with some of the problems of success, including pollution.	Ravaged by war to the mid-70s, Country D managed to keep economic growth over 8% during the 1990's. The reason: its Communist regime relaxed its grip on the economy, permitting foreign companies to do business there. Many investors await legal and banking reforms before committing more money there.

Questions to Guide Your Thinking

1. Which five facts should Babco pay the most attention to when deciding where to invest?
2. Which facts, if any, can Babco safely ignore?
3. Which nation seems the most free, economically?
4. What drawbacks do you see to an investment in Country C?
5. How might Country D's reforms and recent growth spurt make it desirable as a place to invest?
6. What different challenges might each nation pose to Babco's attempt to market a soft drink?
7. To win Babco's much-needed investment, what might officials of each country promise investors? (For example, one might offer tax breaks, another might offer to change a particular government policy.)
8. What might each country stand to gain—and lose—from Babco's investment?

Teachers may make copies of this activity master to distribute to their classes.

global visions

TODAY'S YOUTH AND THE WORLD ECONOMY

The Push for Economic Freedom

cover story

A McDonald's restaurant in Beijing: for many, a symbol of China's new openness to foreign investment.

LU YAQIN has a problem. Last year the Chinese government sold a small factory she managed in China's largest city, Shanghai, to its workers, who elected her and four others to run it. Yet Ms. Lu, 49, knows precious little about private business, so she has to scramble to find ways to make her factory prosper.

And that's all to the good, Wang Zhongyu believes. Mr. Wang is Minister of China's State Economic and Trade Commission, which is overseeing the transfer of about 300,000 state enterprises into private hands. "We must have a system where the strong survive and the weak fail," he told a gathering of Communist Party leaders this past fall. "That is the lesson of the market economy."

It's a lesson that Ms. Lu and her 160 co-workers at the Shanghai No. 2 Textile Machinery Factory hope to master. When their factory was state-owned, success meant churning out the number of machines the government ordered. As the factory's main manager, Ms. Lu had little incentive to find new customers, create innovative *(Continued on page 3)*

"Going Local" with Ronald—No, Donald—McDonald

cultures

LAST YEAR the American principal of a private school in Kyoto, Japan, was sitting in a local McDonald's chatting with Japanese teenagers. "Do you have McDonald's in America?" one boy asked him.

It was a moment that executives of McDonald's Japan, as the company is known there, might have savored. "You don't have 2,000 stores in Japan by being seen as an American company," James Cantalupo, head of McDonald's International, told an interviewer last year. "McDonald's serves meat, bread and potatoes. They eat meat, bread and potatoes in most of the world. It's how you package it and the experience you offer that counts."

Few global companies have done as much as McDonald's to "go local"—to adapt their products to local customs and tastes. "There is no 'Euroburger,'" says Mr. Cantalupo. "We have a different chicken sandwich in England than we do in Germany."

And in Japan, where the language has no "r" sound, Ronald McDonald has an alias. There he's *Donald* McDonald, and Japanese kids have adopted him as their own.

Inside Global Visions 3

WELCOME to *Global Visions 3*, which is designed to help you and other high school students make sense of some of the economic forces that are shaping your world. This issue looks at:

- The tricky concept of economic freedom (page 1)
- What's *really* new about today's global economy (page 2)
- A pioneering student of family budgets in Beijing, China, in 1926 (page 3)
- Three young people energized by economic change (page 4)

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What's New About Global Trade

History

GLOBALIZATION, the process that links economies on every continent in a web of information and trade, is hardly a recent invention. "This global economy we all talk about is actually something that's been going on for a long, long time," says Paul Krugman, an economist at the Massachusetts Institute of Technology.

Dennis O. Flynn agrees. This economist at the University of the Pacific in Stockton, California, traces the global economy back to 1571. That year, Spain founded Manila, now the capital of the Philippines, as a way-station for the cargo ships ferrying silver from the New World to China. Now that Asia could exchange goods directly with the Americas, trade linked all the world's inhabited continents for the first time.

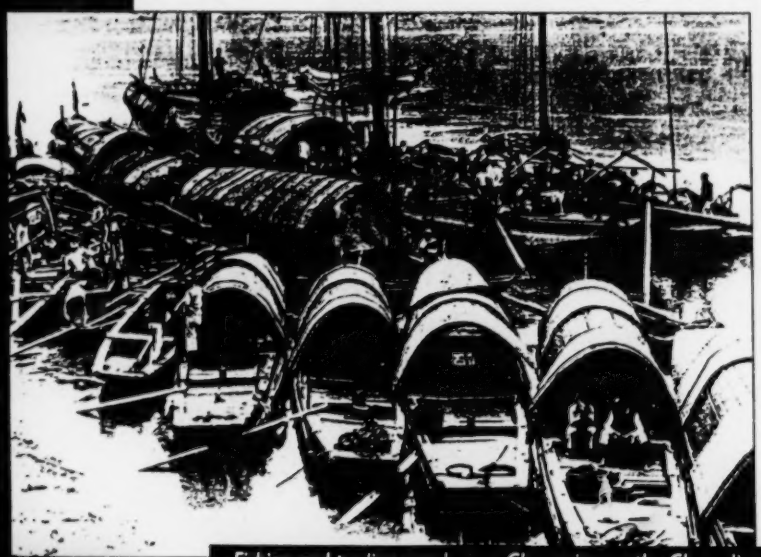
Chartered companies, the ancestors of today's corporations, helped tie together, or "integrate," the economies of various nations. Their agents roamed the world in search of goods to buy, markets to open, and lands to colonize. In 1832 one such agent, Hugh Lindsay of the British East India Company, became the first Western visitor to Shanghai, a medieval walled city in southern China. A decade later British gunboats forced China to open five of its ports to international trade. One of them was Shanghai, which soon became a center of global commerce and China's largest city.

WHEN NATIONS RELIED MOST ON GLOBAL TRADE

Professor Krugman believes that the world economy may have reached its highest level of integration in 1913, on the eve of World War I. At the time, the European powers had an often exploitative grip on colonies around the globe. Fully half of Great Britain's economic output was wrapped up in trade. Its businesses had more money invested overseas—in U.S. and Australian railroads, for instance—than at home.

These arrangements started unraveling when World War I began in 1914. After the war, nations everywhere hiked import taxes, making trade less desirable as a business. The possibilities for full economic integration would not recur until the early 1990s, after the Soviet Union's fall ended the Cold War.

What makes today's global economy unique? For one thing, more countries exist than ever before, and many are so resource-poor that without trade they would die. Another difference is that international trade touches almost every person on Earth. New roads, railroads, telephone lines and "electronic highways" enable marketers to get news of their products and the products themselves virtually everywhere.



Fishing and trading vessels near Chongqing on the Chang Jiang (Yangtze), China's longest river, as Sidney Gamble saw them in Sichuan in 1917.

Nancy Koehn of the Harvard Business School points out that the incredible speed of today's transactions is also unprecedented. Around 1500, she says, news of a painting's sale in Italy found its way to art dealers in London in less than a week. But today, she points out, a decision made in Germany's central bank "on a Friday morning can affect homeowner loans in north England that afternoon."

The far-reaching impact of such local decisions have made us more aware than ever of the ways national economies are globally linked. "Economies have been intertwined around goods and information for centuries," Professor Koehn says. What's new is that we know it: The global economy embraces us all.

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An American in China

Bearers carted Sidney Gamble and his typewriter into Sichuan Province in 1917.

CHINA'S coastal cities were part of the puzzle of the global economy when Sidney Gamble, an American teenager, made his first visit to China in 1908. Just out of high school and traveling with his parents, this great-grandson of one of the founders of Procter & Gamble visited Hangzhou. Nine years later, after college and graduate study in economics, Gamble returned to China to work for the YMCA in Beijing, China's capital, and to conduct a survey of the city's ordinary citizens with local student volunteers. In 1921 he published his findings in a book called ***Peking: A Social Survey***, which he illustrated with 50 of his own photographs. An excerpt:

"Work all day and seven nights a week is the usual rule throughout China. . . . The long hours are hardest on the apprentices, as most of them are boys from 14 to 18 years of age. A great deal of work is required of them, and they fail to have any educational opportunities, except along the line of their trade. The men suffer from the long hours, as any home life is practically impossible for most of them. Consequently, they leave their families behind them when they come to the city for work, and we find that two out of every three persons in Peking are males. . . ."

In 1926 Gamble did a follow-up study on living standards in Beijing. For an entire year, his team of assistants kept track of the income and expenses of 283 families, filling in simple questionnaires for the many family members who could neither read nor write. Gamble described these families' daily struggles (for many, fruits and vegetables were luxuries) in a later book, *How Chinese Families Live in Peiping*.

Today researchers working for international corporations use such data to help them understand consumer preferences. Similarly, Gamble's pioneering studies helped Americans understand China, in words and pictures, during a particularly difficult period in its history. As his unforgettable photographs suggest, he achieved his goal—for his time, and for ours.

Boys line up for a bowl of hot porridge at a Beijing soup kitchen in the winter of 1924-25.

Roadside maker of cloth shoes in T'ung Hsien, 15 miles east of Beijing, in 1918.

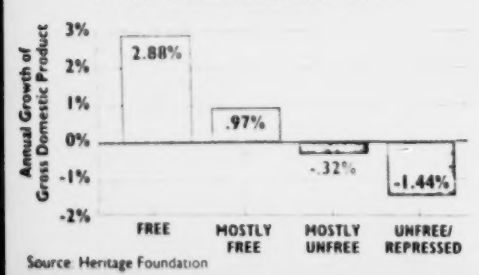
THE PUSH FOR ECONOMIC FREEDOM *(Continued from Page 1)*

product lines or develop cost-saving manufacturing methods.

She does now. China's leaders, who like Ms. Lu are members of the Communist Party, intend to free much of the nation's economy from government control. In so doing they hope to spur competition, releasing energies that can speed China's growth into the ranks of fully developed nations.

Who Prospers, Who Doesn't

Average annual rate of growth of 150 economies from 1980-93. Nations have been grouped according to their level of economic freedom.



Source: Heritage Foundation

Eight "free nations"—those whose governments interfered the least in their economies—experienced the highest rate of economic growth between 1980 and 1993.

LESSONS OF 1776

China's push for economic freedom is part of a global trend. Governments everywhere are stripping away regulations, selling off state-owned enterprises, and lowering trade barriers. In essence, they're following the centuries-old advice of Adam Smith, the Scottish economist and philosopher. "All economic growth," Smith wrote in 1776, ". . . blossoms in the political environment that protects private property and the justly deserved fruits of labor."

Smith was speaking of economic liberty—not of political liberty (the freedom to vote and hold office) or of civil liberty (freedom of speech, religion, and so forth). Besides property rights, basic economic liberty is thought to include *(Continued on Page 4)*

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THE PUSH FOR ECONOMIC FREEDOM (Continued from Page 3)

the freedom to transact business and to set prices, wages and other terms of those transactions.

Smith's free-market theories were not lost on the men who wrote the U.S. Constitution in 1787. They empowered Congress to secure "for limited times to authors and inventors the exclusive right to their respective writings and discoveries." Their goal was to promote innovation—and growth.

Over the past few years, scholars at the Heritage Foundation, a research institute in Washington, DC, have ranked 150 nations according to the levels of economic freedom their citizens enjoy. They use 10 measures, ranging from the size of a nation's average tax on imports to the scope of its black market, to create an annual *Index of Economic Freedom*. Hong Kong, a British colony when this year's study was compiled, scored highest in the *1997 Index*. Singapore, Bahrain, and New Zealand followed, with the U.S. and Switzerland tied for fifth place. Three Communist nations—Cuba, Laos, and North Korea—ended up at the bottom of the list.

The *Index*'s editors believe that their research demonstrates a clear link between economic freedom and growth. "Countries with the highest levels of economic freedom also have the highest living standards," they say.

But which comes first, economic freedom or prosperity? Critics of the *Index* aren't so sure there's a clear answer. "Freedom," contends Bruce R. Scott, an economist at the Harvard Business School, "is more often the result than the cause of [economic] development." Professor Scott notes that South Korea and Taiwan achieved a good measure of their growth during periods of firm government control. "Only in recent years," he says, "as their economies have reached a high level of success, have Taiwan's and South Korea's governments begun to relax their grip."

Other experts are convinced the Heritage Foundation is on the right track, however. "All signs point in the same direction," economists Steve Hanke and Stephen Walters reported to a U.S. Senate committee last summer. "Those who would like people to enjoy greater prosperity must work to assure greater economic liberty." As it happens, those two goals are shaping Lu Yaqin's struggle to make Shanghai No. 2 Textile Machinery Factory survive as a private business.

Three Who Thrive on Change

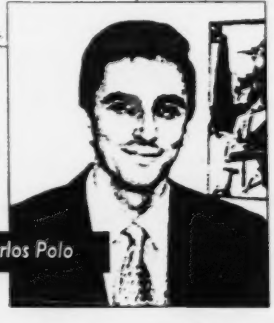
career track

CHANGE can be unsettling. But for many young people embarking on careers, the push toward economic freedom means both challenge and opportunity. In her lifetime, Xu Shan, 22, has seen her family's income rise 1500 percent and its living space nearly quadruple—thanks, she believes, to China's more open economy. A recent university graduate, Ms. Xu now helps Procter & Gamble manage Olay products in Guangzhou, a major port city in southern China. She hopes free-market reforms energize China's state-owned enterprises. "I will welcome the competition from local companies," she told *GV*. "That will make my job more exciting and challenging!"

Xu Shan

Hu Yajun

Hu Yajun, 26, also works in Guangzhou, as business manager for a Hong Kong company set up to fund "Project Hope," a program that brings schooling to young people in China's countryside. (In 1996, Procter & Gamble donated $600,000 to build 25 "Hope Schools.") "People in my parents' generation had almost no choice of career," Mr. Hu told *GV*. "Now, with China's shift to a market economy, we have more choices." His goal: to open an advertising agency profitable enough to fund a tuition-free vocational school near the village of Yanbei, in whose Hope School he taught for three years. "Even if I fail," he says, "for myself it's enough to have done something significant with my life."



Carlos Polo

On the other side of the Pacific Ocean, Carlos Polo, 28, is equally upbeat. Mr. Polo joined the Gillette Company three years ago in Cali, Colombia's third largest city. Temporarily assigned to Gillette's Boston headquarters, he expects to return to Cali as a manager, perhaps in finance. Though Colombia's economy got a big boost in 1990 when free-market reforms loosened restrictions on foreign trade and investment, violence stemming from drug trafficking and armed guerrillas make doing business there complicated. "You have to live with a lot of uncertainty," Mr. Polo told *GV*. "That just means we have to adjust some things and keep running the business." Colombia is an important market for Gillette, and Mr. Polo plans to keep it so. "We are always optimistic," he says.

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